

Legislative Brief

The Salaries and Allowances of Ministers (Amendment) Ordinance, 2020; The Salary, Allowances and Pension of Members of Parliament (Amendment) Ordinance, 2020

The Salary, Allowances and Pension of Members of Parliament (Amendment) Ordinance, 2020 was promulgated on April 7, 2020.

The Salaries and Allowances of Ministers (Amendment) Ordinance, 2020 was promulgated on April 9, 2020.

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Highlights of the Ordinances

- ◆ The two Ordinances amend: (i) the Salary, Allowances, and Pension of Members of Parliament Act, 1954 to reduce the salaries of MPs by 30%, and (ii) the Salaries and Allowances of Ministers Act, 1952, to reduce the sumptuary allowance of Ministers by 30%.
- ◆ The government also amended Rules notified under the 1954 Act to reduce certain allowances of MPs for one year. These include constituency allowance and office expenses allowance.
- ◆ These changes have been made for a period of one year effective from April 1, 2020.
- ◆ These reductions are being made to supplement the financial resources of the centre to tackle the COVID-19 pandemic.

Key Issues and Analysis

- ◆ The Constitution empowers MPs to determine their salaries and allowances by passing a law. This leads to a conflict of interest. To address this issue, some countries have used processes such as an independent authority, benchmarking to senior civil servants' pay, and delayed implementation of an Act passed by the legislature.
- ◆ Allowances of Indian MPs differs from that of national legislators in countries such as the UK and the US. Indian MPs are provided housing, whereas British MPs are provided an allowance to rent a house and there is no such allowance in the US. These countries provide office space which Indian MPs don't get. The allowance for hiring legislative assistants is significantly lower in India.
- ◆ The proposed reduction to MP salaries and allowances is likely to have a negligible impact on the financial resources needed to fight COVID-19. The reduction in salaries amounts to Rs 54 crore which is less than 0.001% of the special economic package (Rs 20 lakh crore) announced by the centre to fight the COVID-19 pandemic.

PART A: HIGHLIGHTS OF THE BILL

Context

Article 106 of the Constitution empowers MPs to determine their salaries and allowances by enacting laws.¹ Till 2018, Parliament periodically passed laws to revise the salaries of MPs. In 2018 through the Finance Act, Parliament amended the law setting the salary for MPs. It revised their salary and provided that the salary, daily allowance, and pension of MPs shall be increased every five years, based on the cost inflation index provided under the Income-tax Act, 1961.² Further, in 1985, Parliament enacted a law that delegated the power to set and revise certain allowances of MPs such as constituency allowance, office allowance, and housing allowance to the central government.³

In April 2020, the government reduced certain emoluments of MPs and Ministers. This was done in the context of the coronavirus outbreak, to supplement the financial resources of the centre to tackle the COVID-19 pandemic.⁴ This note discusses the Ordinances and Rules issued by the centre to reduce the salaries and allowances of MPs and Ministers.

Key Features

Salary, Allowances and Pension of Members of Parliament (Amendment) Ordinance, 2020

- This Ordinance amends the Salary, Allowances, and Pension of Members of Parliament Act, 1954. The Act lays out the salary and various allowances that an MP is entitled to during their term in Parliament and also provides for the pension to former MPs.³
- The Ordinance reduces the basic salary of MPs by 30%.⁴ Further, the government also amended certain Rules under the 1954 Act to reduce certain allowances of MPs. These are constituency allowance and office expenses allowance.⁵ These amendments have been made for a period of one year effective from April 1, 2020.

Salaries and Allowances of Ministers (Amendment) Ordinance, 2020

- The Ordinance amends the Salaries and Allowances of Ministers Act, 1952. The 1952 Act regulates the salaries and other allowances of Ministers (including the Prime Minister). The Act provides for the payment of a monthly sumptuary allowance (for expenditure incurred in entertaining visitors) at different rates to the Prime Minister, Cabinet Ministers, Ministers of State, and Deputy Ministers.⁶ The Ordinance reduces the sumptuary allowances of Ministers by 30% for a period of one year, effective from April 1, 2020.⁷

Table 1: Comparison of changes in the salaries and allowances of MPs and Ministers

Feature	Previous entitlement (in Rs per month)	New entitlement as per Ordinances (in Rs per month)
Salary	1,00,000	70,000
Constituency allowance	70,000	49,000
Office expense allowance	60,000	54,000
<i>Of which</i>		
<i>Office expenses</i>	20,000	14,000
<i>Secretarial assistance</i>	40,000	40,000
Sumptuary allowance of Prime Minister	3,000	2,100
Sumptuary allowance of Cabinet Ministers	2,000	1,400
Sumptuary allowance of Ministers of State	1,000	700
Sumptuary allowance of Deputy Ministers	600	420

Note: The given changes are being made for a period of one year, effective from April 1, 2020.

Sources: Salary, Allowances and Pension of Members of Parliament (Amendment) Ordinance, 2020; Salaries and Allowances of Ministers (Amendment) Ordinance, 2020; Members of Parliament (Constituency Allowance) Amendment Rules, 2020; Members of Parliament (Office Expense Allowance) Amendment Rules, 2020; PRS.

PART B: KEY ISSUES AND ANALYSIS

The Ordinances and Rules have revised the salaries of legislators downwards. We look at some methods and principles which could be helpful in deciding the salaries of legislators.

Methods for setting salaries

Article 106 of the Constitution empowers MPs to determine their salaries by enacting laws.¹ Till 2018, MPs periodically passed laws to revise their salaries. As MPs set their own salaries, the question of conflict of interest arises. In 2010, while discussing the issue in Lok Sabha, several MPs suggested that a mechanism to set MP salaries should be created that does not involve MPs or a parliamentary committee.⁸

In 2018, Parliament amended the law setting the salary for MPs through the Finance Act, 2018 to decrease this conflict of interest and ensure regular revisions. The Finance Act, 2018 provided that the salary, daily allowance, and pension of MPs will be increased every five years, on the basis of the cost inflation index provided under the Income-tax Act, 1961.²

Other democracies have also grappled with this issue. Some appoint an independent authority (e.g., Australia and the UK), some peg it to the salary scale of senior civil servants (e.g., France), and some index salaries to inflation (e.g., Canada).⁹ The United States decides the salaries of legislators through a law but its Constitution specifies that the revision will be effective after the next election to the House of Representatives.¹⁰ Table 2 summarises various methods used in different countries to set salaries for legislators.

Table 2: Various democracies use different methods to decide the salaries of legislators⁹

Countries	Different mechanisms for determining the salary of legislators
<i>Salary indexed to inflation</i>	
India	Increased every five years, on the basis of the cost inflation index
Canada	Adjusted annually as per the average consumer price index of the previous year
<i>Salary set by an Independent Authority</i>	
United Kingdom	Composed of a former MP, former judge, and auditor; salary revised annually as per the average public sector earnings
Australia	Composed of experts in government, economics, law, and public administration; salary revised annually
New Zealand	Composed of judges, MPs, and members of independent statutory bodies; based on the legislator's position in Parliament
<i>Salary indexed to civil servants' pay</i>	
France	Average salaries of the highest and lowest paid civil servants at the highest grade used to determine salaries. Pay of civil servants decided by treasurers (three MPs) of Parliament.

Sources: Various government websites of respective countries- please see endnote 9 for details; PRS.

Whereas Indian MPs decide their own salaries, this conflict of interest is not present for fixing salaries of other public officials. For several constitutional office holders such as the President, Vice-President, and Judges of the Supreme Court and High Courts, the compensation is decided by laws passed by Parliament. In the case of central government employees, the government periodically sets up independent pay commissions to review and recommend changes to their wage structure.¹¹ State governments follow a similar process.

Note that the base salary of MPs is significantly lower than that of other senior public officials (Table 3).¹²

In addition to salaries, legislators across the world are provided with allowances and facilities to help them fulfil their duties.

The US does not provide any housing allowance¹³; the UK provides an allowance for non-London MPs to rent a house or stay at a hotel¹⁴; Indian MPs are provided with housing in central Delhi. While the US and the UK provide office space at Capitol Hill/Westminster, Indian MPs are not allocated any office space. Legislators are also provided with allowances to hire support staff including researchers. A US Senator gets about \$500,000 a year for hiring legislative staff¹³ (sufficient for a legislative director and about five legislative assistants)¹⁵; a British MP gets about £177,000 a year¹⁴ (sufficient to have 3-4 legislative assistants); whereas an Indian MP is provided Rs 40,000 per month³ (which will not cover the cost of even one legislative assistant).

Table 3: Salaries of Some Public Officials¹²

Position	Pay before COVID-19 (Rs per month)
Member of Parliament	1,00,000
Supreme Court Judge	2,50,000
Secretary to central government	2,25,000
SEBI Chairman	2,25,000
RBI Governor	2,50,000

Note: This table only gives the basic pay and does not include allowances.

Sources: Acts and websites listed in endnote 12; PRS.

Effect of amendments on resources to fight COVID-19

The amendments to reduce salaries and allowances of MPs and Ministers are done to supplement the central government's resources to fight the coronavirus pandemic.⁴ The question is whether this reduction has a significant impact to help ramp up financial resources needed to fight COVID-19.

The proposed reduction to the salaries and allowances of MPs and Ministers amounts to savings of around Rs 54 crore. This is less than 0.001% of Rs 20 lakh crore which is the amount of the special economic package announced by the centre, in light of the COVID-19 pandemic.

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